

Message Text

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ACTION EB-07

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FM AMEMBASSY CARACAS

TO USDOC WASHDC PRIORITY

SECSTATE WASHDC PRIORITY 7901

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 5617

PASS TO OED/MEPD AND OIM

STATE ALSO PASS EXIMBANK

E.O. 11652: GDS

TAGS: BENC, VE

SUBJECT: MAJOR PROJECT: CARACAS PEOPLE MOVER

REF: A) STATE 125801; B) CARACAS 2403

1. SUMMARY. WESTINGHOUSE BELIEVES IT IS NOW IN THE HOMSESTRETCH IN SECURING \$350 MILLION CONTRACT TO SUPPLY "PEOPLE MOVER" EQUIPMENT TO VENEZUELA. PROJECT, HOWEVER, IS STILL IN THE NAURE OF A SCHEME A PRIVATE ENTREPRENEUR IS SEEKING TO PROMOTE WITH GOV, AND GOV HAS NOT YET BOUGHT THE IDEA OR ISSUED NECESSARY APPROVALS. WESTINGHOUSE ALSO WORRIES ABOUT FRENCH COMPETITION; FRENCH EMBASSY SOURCE DENIES OFFICIAL GOF POLITICAL SUPPORT OR FINANCING. ENRIQUE DELFINO, THE PRIVATE SECTOR PROMOTER, IS CONTROVERSIAL; IN SOME CIRCLES HE HAS A DUBIOUS REPUTATION. HE HAS BEEN ACCUSED IN THE PAST BY PINERUA ORDAZ, THE PROBABLE AD CANDIDATE FOR THE PRESIDENCY, OF POWER BROKERING AND RECEIVING "JUICY CONTRACTS". WITH PRESIDENTIAL CAMPAIGN WARMING UP AND CORRUPTION AND ILLICIT PAYMENTS AN ISSUE, THIS PROJECT MAY BECOME POLITICALLY CONTROVERSIAL. THIS POTENTIAL MAY SLOW UP GOV CONSIDERATION OF PROJECT, AND EVEN IF GOV WERE TO APPROVE IT THE POSSIBILITY EXISTS OF IT BEING ATTACKED IN THE CONGRESS AND IN

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POLITICAL CAMPAIGN. WESTINGHOUSE MAY MOUNT CAMPAIGN TO SECURE USG SUPPORT FOR ITS SALES EFFORTS; WE HAVE EXPLAINED POLITICAL ASPECTS TO LOCAL WESTINGHOUSE REPRESENTATIVES AND SUGGESTED PRUDENCE. END SUMMARY

2. CARACAS 2403 OF MARCH 8 PROVIDED A GENERAL DESCRIPTION OF THE PEOPLE MOVER PROPOSAL. WHAT MAY NOT HAVE BEEN CLEAR FROM THAT

CABLE, HOWEVER, IS THAT WHAT WAS DESCRIBED IS A PROPOSAL WHICH A PRIVATE ENTREPRENEUR, ENRIQUE DELFINO, AS PRESIDENT OF DELPRECA, HAS BEEN TRYING TO PROMOTE WITH THE GOV. THE GOV HAS NOT YET AGREED TO THE IDEA, AND NONE OF THE REQUIRED DECREES AND APPROVALS WHICH MUST BE ISSUED FOR THE PROJECT TO TAKE EFFECT HAVE BEEN PROMULGATED. WHILE DELFINO'S PROPOSAL IS TO FORM A MIXED COMPANY (PROBABLY WITH THE RAILROAD INSTITUTE) WHICH WOULD THEN BUILD AND OPERATE THIS SYSTEM UNDER A FRANCHISE, THE GOV HAS NOT YET APPROVED THIS. ALTHOUGH DELFINO INSISTS THAT HE HAS APPROVAL "IN PRINCIPLE" AND THAT GOV APPROVAL WILL BE RECEIVED SHORTLY, IT HAS NOT YET. REPORTS THAT THE PROJECT WOULD BE TAKEN UP BY THE CABINET AND THE ECONOMIC COUNCIL JUNE 2 DID NOT MATERIALIZE. ACCORDING TO WESTINGHOUSE, ECONOMIC COUNCIL DISCUSSED JUNE 2 BUT POSTPONED DECISION. WHEN THE AMBASSADOR SPOKE TO THE MINISTER OF TRANSPORT AND COMMUNICATIONS ON MAY 30, THE MINISTER WAS NOTICEABLY COOL TO THE PROJECT. DELFINO HAS EVIDENTLY SPENT A GREAT DEAL FOR FEASIBILITY STUDIES AND DESIGN, AND, WE PRESUME, TO BUY OPTIONS ON LAND ADJACENT TO STATION LOCATIONS, WHICH MAY ACCOUNT FOR THE LACK OF ANY PUBLICITY ABOUT A TRANSIT PROJECT.

3. A SECOND POINT TO BE NOTED IS THAT WESTINGHOUSE'S PROSPECTS FOR SUPPLYING THE EQUIPMENT LIE WITH DELFINO AND NOT THE GOV, I.E. ITS CONTRACT WOULD BE TO SUPPLY DELPRECA AND THE MIXED COMPANY. THE GOV AS SUCH WOULD NOT AWARD A CONTRACT. COMPETITION FOR THE SUPPLY OF THE EQUIPMENT TO DELPRECA HAS NARROWED TO WESTINGHOUSE AND MATRA, A FRENCH AEROSPACE CONCERN. WESTINGHOUSE REPORTS IT HAS A HAND-SHAKE FROM DELFINO FOR AN INITIAL DEMONSTRATION TRACK COSTING SOME \$35 MILLION, BUT NO CONTRACT OR LETTER OF INTENT.

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4. REQUIRED GOV APPROVALS. SINCE THIS IS AN URBAN MASS TRANSIT PROJECT, CERTAIN LEGAL REQUIREMENTS WOULD HAVE TO BE FULFILLED AND GOV APPROVALS ISSUED FOR THE PROPOSAL TO BECOME A PROJECT:

(A) CABINET DECREE AUTHORIZING THE TRANSPORTATION FRANCHISE, ITS ROUTING, AND THE RIGHT OF EMINENT DOMAIN.

(B) CABINET DECREE AUTHORIZING A JOINT PRIVATE-PUBLIC CORPORATION TO BUILD AND OPERATE THE SYSTEM. THE RAILROAD INSTITUTE WOULD PRESUMABLY BE THE PUBLIC SECTOR PARTNER. COMMENT: NO ONE THAT WE HAVE HEARD THINKS THAT THE RAILROAD INSTITUTE WOULD BE OTHER THAN A DUMMY PARTNER, GIVEN ITS PREOCCUPATION WITH THE GUAYANA RAILROAD PROJECT, ANOTHER BILLION DOLLAR PLUM. END COMMENT.

(C) CABINET DECREE AUTHORIZING THE ISSUANCE OF GOVERNMENT GUARANTEES OF THE CORPORATION'S DEBT.

5. THE POLITICAL EQUATION. WE ARE NOW IN THE PRIMARY PHASES

OF THE 1978 PRESIDENTIAL ELECTION. PINERUA ORDAZ IS THE FRONT RUNNER FOR THE GOVERNMENT PARTY, ACCION DEMOCRATICA (AD). HE IS CAMPAIGNING ON A THEME OF HONESTY AND GOVERNMENT RESPONSIBILITY. VENEZUELA'S GRAND OLD MAN AND AD FOUNDER, ROMULO BETANCOURT, HAS ALSO COME DOWN HARD AGAINST CORRUPTION. ENRIQUE DELFINO IS A WELL-KNOWN AND SUCCESSFUL BUT CONTROVERSIAL BUSINESSMAN. SOME RELIABLE VENEZUELAN SOURCES BELIEVE HE IS UNSCRUPULOUS AND SOME THINK HE IS QUITE PREPARED TO RECEIVE AND PAY OUT MONEY UNDER THE TABLE. DELFINO IS THE BUILDER OF THE TROUBLE-PLAGUED PARQUE CENTRAL COMPLEX WHICH WAS BAILED OUT BY CENTRO SIMON BOLIVAR WHILE DIEGO ARRIA WAS GOVERNOR OF THE FEDERAL DISTRICT. PINERUA ORDAZ, SPEAKING IN THE LEGISLATIVE ASSEMBLY IN 1975, LAMBASTED THE "POWER BROKERS FORMED DURING THE CALDERA GOVERNMENT", POPULARLY KNOWN AS THE "TWELVE APOSTLES". HE SPECIFICALLY NAMED DELFINO AS ONE AND WENT ON TO MENTION "JUICY" CONTRACTS" AND PARQUE CENTRAL WHILE DEFENDING THE AD ADMINISTRATION'S CLEAN REPORT. (SEE ELITE 4/25/75).

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TO USDOC WASHDC PRIORITY

SECSTATE WASHDC PRIORITY 7902

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 5617

PASS TO OED/MEPD AND OIM

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6. ANOTHER ACTOR IS JESUS ALVAREZ FERNANDEZ, RELATIVELY UNKNOWN, BUT BEARING THE TITLE EXECUTIVE SECRETARY OF THE PRESIDENTIAL COMMISSION TO STUDY AND COORDINATE TRANSPORTATION IN THE METROPOLITAN AREA OF CARACAS. HE IS DESCRIBED BY MID-LEVEL

PROFESSIONALS IN THE MINISTRY OF TRANSPORT AND COMMUNICATIONS AS THE PROBABLE FUTURE PRESIDENT OF A CARACAS METROPOLITAN AREA TRANSIT AUTHORITY ATTACHED TO THE MINISTRY AND RESPONSIBLE FOR THE METRO, MUNICIPAL BUS LINES, AND PRESUMABLY THIS PEOPLE MOVER PROJECT, IF IT IS APPROVED. AUTHORIZING LEGISLATION TO ESTABLISH THE AUTHORITY HOWEVER HAS NOT BEEN APPROVED. ALVAREZ IS A CO-SIGNER WITH DELFINO ON A LETTER WITHOUT LETTERHEAD SHOWN TO US BY WESTINGHOUSE AND APPARENTLY ALL WESTINGHOUSE HAS IN WRITING ON THE PEOPLE MOVER PROJECT. HIS RELATIVE POWER POSITION WITHIN THE GOV IS UNKNOWN. WE DO KNOW THAT PROFESSIONAL PLANNERS IN THE MINISTRY, WHILE ACKNOWLEDGING HIS COMPETENCE, ARE UNHAPPY WITH THE PEOPLE MOVER PROJECT, AND THE METRO PROJECT OFFICE IS OPPOSED TO A PEOPLE MOVER LINE TO CARICUAO. ALVAREZ HAS STATED THAT THE PEOPLE MOVER PROJECT WILL MOVE FORWARD BECAUSE THE PRESIDENT IS "DISSATISFIED" WITH THE SLOW PACE OF THE METRO PROJECT AND FEELS THAT ONLY THE PRIVATE SECTOR HAS THE AGILITY TO ACT RAPIDLY AND INSTALL A SYSTEM TO SOLVE THE TRAFFIC CONGESTION PROBLEM IN CARACAS BEFORE

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THE ELECTION.

7. FRENCH COMPETITION AND FINANCING. WESTINGHOUSE IS ALSO WORRIED THAT THE FRENCH ARE EXERTING HEAVY PRESSUR (A RUMORED LETTER FROM JACQUES CHIRAC TO PRESIDENT PEREZ), AND COURTING DELFINO. EMBOFF HAS DISCUSSED PROJECT WITH FRENCH COMMERCIAL COUNSELOR WHO HAS ALWAYS BEEN OPEN AND FORTHCOMING WITH US. HE DENIED KNOWLEDGE OF OFFICIAL SUPPORT FOR MATRA, POINTING OUT THAT COFAZ GUARANTY OF EXPORT FINANCING WOULD BE CLEARED THROUGH HIM. HE HAS BEEN FOLLOWING THIS PROJECT WITH "EXTREME PRUDENCE", GIVEN THE POLITICAL ENVIRONMENT. SUBSEQUENTLY, HE RECONFIRMED THIS ASPECT, ADDING THAT HE HAD CONSULTED WITH HIS AMBASSADOR WHO ALSO DENIED ANY GOVERNMENT-TO-GOVERNMENT SUPPORT. THE COMMERCIAL COUNSELOR AGREES, INCIDENTALLY, WITH OUR ANALYSIS THAT ANY GOV GUARANTY OF THE PEOPLE MOVER CORPORATION'S DEBT WOULD BE A PUBLIC CREDIT OPERATION AND SUBJECT TO CONGRESSIONAL APPROVAL. (ALVAREZ AND DELFINO HAVE MENTIONED "AVALS" TO BE PICKED UP BY CORPORACION VENEZOLANA DE FOMENTO.)

8. WESTINGHOUSE CAMPAIGN. LAST WEEK WESTINGHOUSE INTERNATIONAL PRESIDENT MURRIN TELEPHONED THE AMBASSADOR TO URGE EMBASSY SUPPORT AGAINST THE REPORTED FRENCH COMPETITION. HE INDICATED WESTINGHOUSE- WOULD SEEK USG SUPPORT THROUGH APPEALS TO STATE, COMMERCE AND SENATORS. THE AMBASSADOR REPLIED THAT THIS WAS A COMPLICATED SITUATION WITH SOME POLITICAL OVERTONES WHICH HE DID NOT WANT TO DISCUSS ON THE PHONE, BUT WHICH HE WOULD LAY OUT TO WESTINGHOUSE REPRESENTATIVES WITH WHOM HE WAS MEETING THAT AFTERNOON. IN THE LATER MEETING (WITH CLINT WEBER AND JOSEPH MARSHALL), WE DESCRIBED ALL OF THE ABOVE, AND EMPHASIZED THE POLITICAL COLORATION. WE POINTED OUT THAT AS THE POLITICAL CAMPAIGN TOOK SHAPE THE CHANCES

OF THE PRESIDENT APPROVING

THIS WITHOUT GOING TO CONGRESS WANED, AND THE GOV WILLINGNESS TO GO AHEAD WITH IT MAY BE AFFECTED BY THE CURRENT CORRUPTION/ILLICIT PAYMENTS ISSUE. WE ALSO POINTED OUT THAT EVEN IF THE CABINET APPROVED, THE PROJECT MIGHT BE OPPOSED IN THE CONGRESS. WE THEREFORE URGED PRUDENT CAUTION ON WESTINGHOUSE, AND A LOW PROFILE
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UNTIL SUCH TIME AS GOV APPROVAL IS ISSUED. WE SUGGESTED THEY CONTINUE TO TRY TO GET A FIRM COMMITMENT FROM DELFINO, WHILE WE WOULD ATTEMPT TO TRACK THE GOV'S INTENTIONS.

9. COMMENT. IN VIEW OF THIS PROJECT'S COMPLICATIONS AND TWISTS, AND THE POSSIBILITY THAT WASHINGTON MAY HEAR FROM US SENATORS AND CONGRESSMEN AS WELL AS THE COMPANY, THE ABOVE DETAILED SITUATION SHOULD BE KEPT IN MIND. WE PARTICULARLY REPEAT AND EMPHASIZE THE FOLLOWING: A) THIS IS A PROPOSAL WHICH A PRIVATE PROMOTER AND CONGRESSMEN AS WELL AS THE COMPANY, THE ABOVE DETAILED SITUATION SHOULD BE KEPT IN MIND. WE PARTICULARLY REPEAT AND EMPHASIZE THE FOLLOWING: A) THIS IS A PROPOSAL WHICH A PRIVATE PROMOTER IS TRYING TO SELL TO THE GOVERNMENT; THE GOV HAS NOT YET APPROVED AND IT IS THEREFORE NOT A "PROJECT" IN THE SENSE THAT IT IS JUST A QUESTION OF AWARDING CONTRACTS FOR EQUIPMENT; B) THE ENTITY WHO WILL DECIDE BETWEEN WESTINGHOUSE AND ITS COMPETITION IS DELPRECA (DELFINO) NOT THE GOV; IF THE FRENCH ARE COURTING DELFINO THERE IS NOT MUCH THE EMBASSY CAN DO ABOUT THAT; C) THE PROPOSAL HAS THE SEEDS OF DOMESTIC POLITICAL CONTROVERSY IN IT IN TERMS OF THE ISSUE OF CORRUPTION AND GRAFT.
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